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UNITED STATES DEPARTMENT OF AGRICULTURE
 AGRICULTURAL ADJUSTMENT ADMINISTRATION

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Unshackling Our Export Trade

Adapted in the Division of Information from addresses by Chester C. Davis, Administrator, Agricultural Adjustment Administration, made June 3, 5, and 13, 1936.

Highlights.—Export subsidies may be useful at times to meet special conditions with special crops, but dependence on that principle as a major part of any farm program only can lead the United States back into disaster. The double-jointed policy of excluding imports and subsidizing exports, advocated by some leaders responsible to agriculture, is utterly contradictory and unworkable under present world conditions.

An important obstacle to foreign sales of farm products is that as a Nation the United States wants to sell all and buy nothing—and that won't work. Trade is exchange of goods. It has to move both ways. If it does not, there is no trade. (See p. 3.)

A subsidy program which does not include an effective method of production control carries the seeds of its own destruction. To force unlimited quantities of farm products on the world market in its present state would only invite retaliation and result in the loss of some of the markets we now have.

It is clear that the maintenance of foreign markets is a national and not a regional problem. Moreover, it is not confined to agriculture. The dependence of industrial prosperity upon agricultural buying power has been demonstrated in so many ways during the past 3 years that no discussion of that plain economic fact seems necessary.

The broad program now being pursued by this Government is best calculated to achieve a balance of trade through a general reduction of trade barriers that throttle international commerce throughout the world. The people of America will hear much during the months ahead of how cotton exports and other agricultural and industrial exports can be maintained and the Nation at the same time pursue a course of drastic isolation. There is no magic formula, no sleight-of-hand, by which such an objective can be accomplished.

I. Home and Export Markets Needed

The place of foreign trade in the American farm problem is an important one. Increase foreign trade in American farm products and the agricultural problem will fade. Decrease foreign trade and American agriculture will fade. On the satisfactory solution of foreign-trade problems depends much of the future of American agriculture.

Supply and demand control prices.—Looking at the American farm problem deliberately, two considerations stand out as vital.

First, the United States must shape its course so as to regain and maintain its export markets for farm products without sacrificing farm income or decreasing domestic consumption.

Second, the United States must retain a rate of agricultural production that will satisfy the needs of the home market plus the export markets it can get. It must not break down the domestic farm price structure by producing quantities in excess of what both markets will take at fair prices.

Free flow of trade is necessary.—After visiting European countries which stand on the other side of the counter in most of America's trade relations, it is apparent that American farmers and

the Nation will seriously endanger the ground that has been gained since 1932 if this country adopts the European system of exclusion and barter, or the "two-price system" which involves unlimited production and depends upon Government subsidy to force exports.

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Europe against subsidized exports.—Unless the United States buys proportionately as sales expand, it can't force increased exports into the European market, no matter how much it subsidizes. Under present powers and without waiting for legislation, the executives of any important European nation can provide instantly for exclusion of exports from this country.

During the long fight for an export subsidy for agriculture which continued from 1923 to 1928, the "two-price system" had a chance to work. A foreign market for most American surpluses, upon which this plan depended, did exist during those years. The United States was exporting farm products in large volume. But that alone did not solve the farmers' problems. There were two reasons.

Surplus price pegged home markets.—In the first place, the price farmers got for their exportable surplus production of certain problem crops automatically pegged the price for all they sold in the home market as well.

In the second place, exports were in larger volume only because the United States was lending money to foreign customers with which to pay for those exports. It amounted to sending a shipload of wheat and lard to Europe, and sending in the same boat the money with which to pay for it—and then standing on the pier and cheering because there was an export market.

It actually meant giving farm products away to whatever extent the foreign nations did not repay the loans. To that extent it wasn't really a foreign market; it was foreign relief work at the expense of American investors and taxpayers.

II. Exports Provide Cash for Imports

In 1929 it became apparent that the old methods of farm relief embodied in the McNary-Haugen bills simply would not work in the new set of world conditions that confronted the Nation then. A new policy was needed to square with the existing facts. Two entirely new factors had entered into the scene.

Nations organize for self-sufficiency.—One was that the United States had finally stopped lending billions abroad. That knocked the props out from under the artificial export market.

The other was that Europe was not only back into its pre-war production stride, but was pushing forward into new highs, spurred on to still greater production by the desire for self-sufficiency in the face of a possible war.

United States ignored facts of world trade.—When the United States stopped lending money, that false foundation finally gave

way, and a rapid sequence of events followed: The lost export market caused supplies to pile up at home. The unsold supplies drove prices down to desperation levels. Yet the individual farmer continued to produce unsalable supplies because he was forced by these low prices to strive for maximum production to meet his high fixed charges.

America's former customers abroad established new devices to bar out imports, or to control their volume exactly where they wished. This Government had shut its eyes to these facts. It had led the world in lifting tariffs toward exclusion; and at the same time, it had demanded debt payments—and optimistically planned for continued and expanded exports besides!

National exclusion would menace agriculture.—An important obstacle to foreign sales of farm products is that as a Nation the United States wants to sell all and buy nothing—and that won't work. Trade is exchange of goods. It has to move both ways. If it does not, there is no trade.

Americans need a sense of proportion in sizing up the obstacles in the way of attaining agricultural prosperity and in choosing the best methods to overcome those obstacles. Competitive agricultural products can come into this country only if domestic prices are higher than world prices by more than the amount of existing tariffs. A policy of national exclusion for agricultural products that shuts off competitive imports entirely would not in a normal year cut down imports enough to make any material difference in the American international trade balance.

The real menace to American international trade is concealed behind that policy advocated ostensibly for agriculture. Farmers are not so simple-minded as to believe that the principle of national isolation will be adopted for farmers only and that it will be withheld from the industrial groups that want a similar protection extended to them.

European isolation has cut trade.—The nation which adopts that principle of exclusion, of isolation, of national self-sufficiency, cannot hope to expand, or even to hold its agricultural exports. Such a policy is copying present-day European nationalism at its worst; if adopted it will cut down America's international trade just as it has done in Europe.

Then there are those who would put the Government in the business of "disposing of surpluses by bargaining for foreign markets selectively by countries both as to exports and imports." That again is copying the disastrous European nationalism at its worst. It will work out in America as it has done in Europe, in two channels, both of them bad.

Regimentation results from barter policy.—In the first place, government barter, government selection of imports and exports, will result in decreased, not in increased trade. It has done so in Europe. Coupled as it is with the policy of national exclusion, of "autarchy", as they call it in Europe, it will strike a crippling blow at agricultural exports, notwithstanding the fact that it is urged in the name of increased trade.

In the second place, the day the United States sets up a Government agency in charge of selecting which exports may be bartered from this country, and selecting which imports may come in, that

very moment it starts down the path which, in Europe, has led step by step to the most complete governmental regimentation of business, internal as well as external, the modern world has ever seen.

The experience of France with wheat is a striking example. By a system of exclusion based on high tariffs and quotas France maintained domestic prices under which its production of wheat increased. It changed rapidly from a wheat importing to a wheat exporting nation. An agency was created to assist in the disposition of the surplus. In the last 2 or 3 years $2\frac{1}{2}$ billion francs—about \$170,000,000—has been spent trying to subsidize the export of wheat and its denaturing for livestock feed. France is now approaching the next stage. The new Minister of Agriculture went into office with the pledge to create a government grain monopoly in complete control of the internal as well as the external marketing of grain. Monopolies such as this are general throughout Europe.

Two-price system seldom workable.—The two-price system has to be revised sharply in order to work for American farmers under present world conditions. It will injure farmers far more than help them to try to force unlimited quantities of farm products on the world market in its present state. This would only invite retaliations and close up some of the export outlets that still remain. The only way the two-price system can serve producers of major farm crops now is to use it skillfully in conjunction with production control, so that domestic farm prices can be maintained while quantities of farm exports which the world really wants, and will take without protest, can move readily in world trade at the going world price.

To illustrate: Last May, before the 1936 drought development, the International Wheat Advisory Committee estimated that the world trade in wheat for the year 1935–36 would be 480 million bushels, compared with the yearly average of 770 million bushels for the period from 1922 to 1927, inclusive. This is a loss of nearly 300 million bushels. Now, it is clear that America might, with production control and a fair quota of exports, work the two-price system for American wheat producers. But to take the lid off completely and expect to export any wheat surplus produced, no matter how big, would wreck America's actual wheat market, first abroad and then at home. American farmers want to move forward, not backward, and regain markets abroad while maintaining prices at home.

A subsidy program which does not include an effective method of production control carries the seeds of its own destruction. The purpose of all export-subsidy proposals is to sell surpluses abroad so that the price on the remainder of the crop will rise to the top of the tariff wall. Now, the American tariff has become fully effective on wheat, livestock, and livestock products, so that farm prices are high enough to attract some imports into this country over the top of our tariff wall. This is a sign that for once our tariffs are reflected in raising our domestic farm prices.

III. Foreign Markets Are National Problem

The proposition of exclusion as it is being discussed today really seems to be advanced as part and parcel of the two-price system. This policy of exclusion, of national isolation, is proposed to be

supported by higher tariffs or quotas or import licenses. Many are convinced that a national policy of exclusion can only be disastrous for American farmers. It is necessary to remember that continued big-scale production by American farmers depends on foreign outlets—and also that the greatest handicap to American sales abroad of lard and cotton and tobacco and fruit is the lack of dollar exchange in foreign countries which can be applied to the purchase of our goods.

Farm exports affect many groups.—In some commodities export is enormously important. America consumes at home less than half of its cotton production, for instance—and 58 percent of the total farm population live in the Cotton Belt. More than 75 percent of some types of tobacco is dependent upon export. Much lard production depends on export. Sacrifice the market of these great groups of producers, and sacrifice their income and buying power accordingly, and the repercussions on the agriculture and industry of the whole Nation are enormous.

What would happen to that 58 percent of our farm population if our cotton exports were sacrificed in the race for isolation?

Industry needs farm buying power.—The suggested answer is not a pleasant one. The direct result would be sharp reduction of an income always pitifully low, of half our farm population. This would strike quickly and terribly into the industrial and the rest of the agricultural fabric of the Nation.

Thus it is clear that the maintenance of foreign markets is a national and not a regional problem. Moreover, it is not confined to agriculture. The dependence of industrial prosperity upon agricultural buying power has been demonstrated in so many ways during the past 3 years that discussion of that plain economic fact seems unnecessary.

IV. Barter-Quota System Means Control

From the American standpoint there are two serious defects in the bilateral-barter-quota system. These have already been mentioned. The first is that it multiplies, controls, and forces regimentation, the most drastic regimentation not only of the import and export business but of agriculture, manufacturing, and trade in general.

Commerce decreased by trade wars.—The most complex and drastic controls of both imports and exports characterize the whole system—and yet, strangely enough, it is advocated by some who criticize as regimentation the effort of 3 million American farmers, who, with the aid of the Government, sought to manage their production so as to lessen the shock of lost export markets.

The European controls are amazing in their extent and authority. They include strict and unbeatable quotas; government monopolies in which all trade is centralized by law; licenses for every step of business operation; barter trades between nations with government allocation of business among private firms; compulsory production control; subsidies for production; licenses covering every individual transaction and the necessity of permission before exchange can be used for the buying of goods from abroad. In some countries an individual trader can export only if the government monopoly or bureau will give him permission.

The second objection previously referred to is that it doesn't increase trade but actually decreases it. In Europe the system has helped to strangle and decrease international commerce, to impede the flow and reduce the output of goods and hence decrease employment, to lower living standards for both farmers and laborers, and to breed continual fear that the trade war in which it engages them will be followed by military war.

Lost markets force production adjustment.—In the economic conditions faced by farmers here and abroad, the point is continually driven home that agriculture is a national problem affected by forces which are international. This is recognized by the nations of Europe which quickly feel and adjust themselves to changes in their export markets. In 1931, Denmark and Holland lost part of their export market for pork because England reduced imports of ham and bacon. Whereas, under the same circumstances, the United States waited 2½ years to act, the governments of Denmark and Holland, two of the most liberal and democratic countries in Europe, grasped the problem at once and within a year introduced production control in order to protect their farmers from the consequence. No farmers anywhere like to cut acreage, but the farmers of those countries are thrifty and they would rather adjust their production than to commit economic suicide by producing for a market which no longer exists.

V. Reciprocal Trade Aids Sales Abroad

Instead of import exclusion or strict bilateral trade balancing, with their byproducts of international ill will, retaliation, reduced trade, and regimentation, the American Government is promoting reciprocal trade agreements through judicious use of the most-favored-nation principle to generalize concessions among the countries of the world. The countries which enter into reciprocal agreements with the United States agree to give the advantages and concessions which they have given or may give to other nations in return. This policy leads to better balance of trade and to freer commerce throughout the world, by reducing or eliminating international barriers under which trade now suffers. In order to make sure that this country's tariff concessions do not result in importation of quantities so great as to work serious injury to important domestic groups, import or tariff quotas are provided when there is indication that they may be needed. When a tariff quota is exhausted, further imports come in at the regular rate of duty.

Farm sales gain under trade treaties.—The United States now has concluded 14 reciprocal trade agreements. The American-French agreement is the first in over a hundred years between the United States and France. The Director of Commercial Accords in the French Government, who had much to do with negotiating the agreement, says that the United States will benefit in larger measure than France under the agreement but that unquestionably both nations are going to be helped.

Eight of these agreements have been in effect long enough to give some idea of how they are working. American agricultural exports to these eight countries during the first quarter of 1936 increased 15 percent over the same quarter last year, compared with an increase

of only 5 percent to the countries with which the United States has no trade agreement.

The tariff concessions under these agreements do not extend further than to bring the rates upon the products covered by the agreement down from the Smoot-Hawley rates to those under the Fordney-McCumber Act. Many concessions do not even go that far.

United States is treated as most-favored-nation.—Soon after completion of the American trade agreement with Belgium, that country decided to eliminate an import tax amounting to one-half franc per kilo—about 4 cents per pound—on lard. Because of the most-favored-nation principle, the tax was, of course, eliminated on imports from the United States. On a barter arrangement, our corn and hog farmers would not have received this automatic concession.

Sweden negotiated an agreement with Spain soon after the conclusion of the trade agreement with the United States. In our agreement with Sweden we were not able to induce that country to give us any assurance in regard to the imports of oranges for the reason that we have been in the past a very small source of supply. But Spain was able to get Sweden to agree to continue oranges on the free list and consequently, by virtue of the most-favored-nation clause in our agreement with Sweden, oranges from the United States are guaranteed freedom from import duties upon importation into Sweden.

Similarly, Sweden completed an agreement with South Africa reducing its duties on apples and pears during the months of May and June. Exports of apples and pears from the United States to Sweden during these months automatically secure the benefit of lower duties.

People talk a great deal about the desirability of becoming self-sufficient in sugar production in the United States. Yet during the first 12 months after the Cuban trade treaty went into effect in September 1934, opening the doors a little wider for the entrance of Cuban sugar into the United States, American lard exports to Cuba nearly doubled, with an increase of 16 million pounds. This increase alone represents a demand for the corn-hog production from 80,000 average Iowa corn acres, or the equivalent of the entire average sugar-beet acreage of the State of Nebraska, which is one of the principal sugar-beet States.

Canadian imports fail to hurt market.—Some farmers in the Northwest have been worried about the possible effects of the Canadian agreement, particularly with reference to cattle and to cheese. At an earlier time, there was some fear about other products, such as cream. Cream, among other products dealt with in the treaty, is protected by a tariff quota. However, Canadian exporters, far from using up the quota, have apparently found the American market so unattractive to cream that only 7,000 gallons—a drop in the cream vat—came in during the first 3 months the agreement was in effect.

The increase in Canadian imports of live cattle for the first 5 months of 1936 over the same period last year was 48,000 head, or about three-fourths of 1 percent of our domestic slaughter, during those months, which is an amount so small as to have no measurable effect on price.

A different situation exists with respect to cheese imports. Canadian imports, under the agreement, increased strikingly in the early months of 1936. But the total imports of cheese showed only a slight upward trend over the same period of 1935—that is, from 16,300,000 pounds to 16,900,000, or less than 4 percent. However, over 3 million pounds of these imports in 1936 were from Canada, while the Canadian figure for the same period in 1935 was only 350 thousand pounds.

Imports of cheese from Canada in April 1936 dropped to less than 400 thousand pounds, or about 75 percent under the March figure. There is every reason to believe that the normal trend of cheese imports under the Canadian agreement will be much lower than the trend of the first quarter of 1936 when export enthusiasm in Canada had run a little too high.

Welfare of producer is considered.—There is one basic principle upon which all can agree. And that is that whatever methods are adopted to facilitate the movement of farm commodities into export, a basic consideration must always be the welfare of the primary producer. If a fair return is not received by the farmer for his product, he cannot be expected to continue to produce at a loss for either export or domestic markets. The objective of the A. A. A. for the past 3 years has been to protect the purchasing power of the farmer while at the same time making essential adjustments in the surplus crops to get out from under the load of unsalable supplies that brought on the price crisis of 1932 and early 1933.

The broad program now being pursued by this Government is best calculated to achieve a balance of trade through a general reduction of trade barriers that throttle international commerce throughout the world. The people of America will hear much during the months ahead of how cotton exports and other agricultural and industrial exports can be maintained and the Nation at the same time pursue a course of drastic isolation. There is no magic formula, no sleight-of-hand, by which such an objective can be accomplished.

The new Agricultural Conservation program offers an opportunity to rebuild the farm plant and to move in whatever direction world events make advantageous. Under the act the State governments will, through the appropriate agency, assume a larger degree of responsibility for the administration of the program a year hence.

As desirable as the objectives of soil conservation are, the basic problem of markets for agriculture must be met through a vigorous and realistic foreign trade policy which is a problem apart from the important task of getting our lands in order. The wise leadership of this administration is working in a thoroughly intelligent and realistic manner for a rational revision of our tariff structure. The success of these efforts is so important to the Nation that a well-informed public support is essential.

SUGGESTED REFERENCES

The following publications may be secured, without charge, as long as supplies are available, from the Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.:

America Must Choose Its Course in Foreign Trade, G-45.

Saving the Soil, G-53.

Soil Conservation—Its Place in National Agricultural Policy, G-54.

Making the Most of the Home Market, G-56.